zayre

ANNUAL REPORT

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COVER

A representation of the updated Zayre logo appears on the cover. Enhanced consumer recognition will result from our use of this distinctive symbol in all advertising and store signing.

zayre

FINANCIAL HIGHLIGHTS

	1970	1969
Net Sales	**$683,131,000**	$599,869,000
Income before Federal Income Taxes	**14,981,000**	16,452,000
Net Income	**7,663,000**	8,652,000
Working Capital	**87,294,000**	80,350,000
Shareholders' Equity	**73,538,000**	65,516,000
Net Income per Common Share:		
Primary	**$1.62**	$1.85
Fully Diluted	**$1.54**	$1.78

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Letter to Shareholders

Your company broadened the base of its operations during 1970 through new store openings, two acquisitions, and considerable growth in specialty store operations. Financial results, however, were clouded by both sluggish economic conditions, which prevailed throughout the year, and strong inflationary cost pressures. Although the company weathered the effects of the economic recession better than many others in retailing, overall performance was well below expectations.

Net sales totaled $683,131,000, a gain of 14% over the previous year. Net income for 1970 declined to $7,663,000, equal to $1.62 per share, compared with $8,652,000 or $1.85 per share last year.

The nation's economic downturn was not only deeper than had been anticipated but also more prolonged, with the gradual recovery forecast for Fall 1970 only beginning to occur in 1971. Thus stores were handicapped in achieving budgeted sales increases in a period when costs of operation were rapidly escalating.

Despite the "tight money" conditions of 1970, 16 new Zayre stores were opened, bringing the total number of discount department stores in operation at fiscal year end to 179. With long-term financing now more plentiful for real estate developers, the new store program will be accelerated with 18 to 22 new Zayre units planned for 1971 and a larger number in 1972.

In August we completed the purchase of Warwick Shoppers World, operators of a chain of ten discount department stores and one large promotional apparel store, all located in Rhode Island and Massachusetts. We plan to supplement the apparel merchandising excellence of the Warwick group with the hardlines skills of the Zayre merchandising organization.

In September we completed the acquisition of Commonwealth Trading Corporation, operator of the "Hit or Miss" promotional ladies' apparel stores. This group opened a total of seven units during the year and operated 17 stores at year end. We believe that this unusually effective operating format has the potential for rapid and profitable expansion.

Our other specialty store chains had strong new store programs during 1970, including twelve Beaconway Fabrics stores, nine Nugents apparel stores, and nine Spree! toy and leisure-

time stores. Most of these operations should have equally ambitious growth in 1971.

We have completed plans for the construction and financing of a new 486,000 square foot distribution center facility in Mansfield, Massachusetts. Approximately 50 acres of land have been purchased in a new industrial park strategically located at the intersection of two interstate highways. Completion and activation of the center is anticipated in the first half of 1972.

The potential for retailing in the Seventies is extraordinarily promising. The years ahead will witness an unprecedented growth in the number of new family formations as well as huge gains in overall consumer spending power. The greatest portion of this growth will be concentrated in the suburban middle income groups which constitute the company's primary market.

Since the return to a strong economy appears to be heavily dependent on the restoration of a high level of consumer confidence, economists are finding it difficult to be precise about the rate of that recovery. This is further complicated by the still unsolved problem of excessive inflation.

We expect earnings for 1971 to benefit from the stringent expense control programs now in effect even if we assume a conservative view of sales. Given an upward surge in sales, the profit potential inherent in our properties is such that we believe we will once again produce an above average return on shareholders' equity.

Zayre continues to be a rapidly expanding business — and one with ambitious profit objectives. Our many avenues of growth are examined in the center section of the report. We are very gratified by the increasing capacity of the Zayre organization to undertake more specialized and demanding tasks. To our 22,500 associates we once again convey our heartfelt thanks for their dedication — they are truly Zayre!

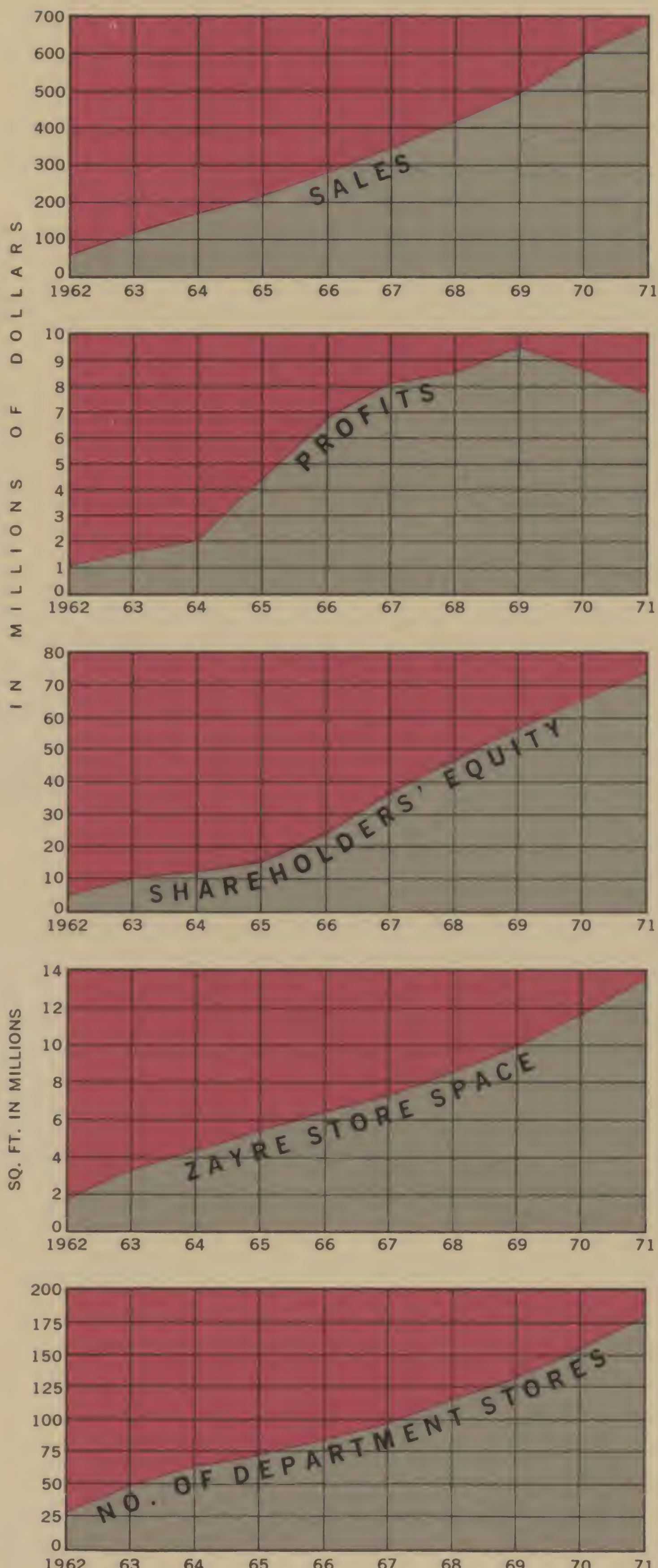
Max Feldberg

MAX FELDBERG
Chairman

Stanley H. Feldberg

STANLEY H. FELDBERG
President

April 14, 1971



Ten-Year Summary

Fiscal Year Ended Last Saturday in January	1971
OPERATING DATA:	
Net sales, excluding sales of leased departments	$683,131,062
Income before federal income taxes	$ 14,980,791
Net income	$ 7,662,791
Average number of common shares outstanding	4,637,579
Net income per Common share:	
Primary (1)	$1.62
Fully diluted (2)	$1.54
STORES IN OPERATION:	
Self-service department stores	179
Apparel specialty shops	51
Fabric shops	18
Gasoline Stations	50
Discount Food Supermarkets	8
Discount toy stores	9
Promotional Ladies' Apparel Stores	17
FINANCIAL POSITION:	
Current assets	$159,796,915
Current liabilities	$ 72,502,832
Working capital	$ 87,294,083
Shareholders' equity	$ 73,537,856
Number of common shares outstanding at year end	4,650,393
Equity per common share (3)	$15.52

(1) Primary net income per common share is based on the average number of shares outstanding in each year, after provision for the full annual dividend requirements on the preferred stock deemed to be outstanding during each year.

(2) Fully diluted net income per common share assumes full conversion of all outstanding convertible securities (to the extent each is dilutive) and the exercise of all stock options and warrants during the periods in which they were outstanding.

(3) Information assumes conversion of outstanding preferred stock.

1970	1969	1968	1967	1966	1965	1964	1963	1962
$599,868,532	$490,690,810	$415,434,683	$345,702,887	$278,558,325	$211,984,918	$167,846,772	$115,850,773	$ 59,165,743
$ 16,452,167	$ 18,338,471	$ 14,974,033	$ 14,409,612	$ 11,656,325	$ 7,482,061	$ 3,252,011	$ 2,622,428	$ 2,003,736
$ 8,652,167	$ 9,538,471	$ 8,474,033	$ 8,109,612	$ 6,656,325	$ 4,369,611	$ 1,993,277	$ 1,561,428	$ 1,126,736
4,595,813	4,319,079	4,235,577	4,147,026	3,754,230	3,725,803	3,725,175	3,286,149	3,163,650
$1.85	$2.10	$1.88	$1.87	$1.69	$1.09	$.45	$.37	$.35
$1.78	$1.99	$1.78	$1.75	$1.49	$1.04	$.45	$.37	$.35
153	131	115	96	83	72	64	47	27
48	46	45	40	41	43	46	48	52
7	6	5	—	—	—	—	—	—
37	32	21	13	4	2	—	—	—
8	5	4	—	—	—	—	—	—
—	—	—	—	—	—	—	—	—
—	—	—	—	—	—	—	—	—
$140,998,856	$103,844,019	$ 83,368,194	$ 69,970,686	$ 55,771,000	$ 36,235,800	$ 33,110,766	$ 21,891,016	$ 11,467,893
$ 60,649,133	$ 51,384,968	$ 40,705,403	$ 35,960,526	$ 26,742,975	$ 19,805,734	$ 18,996,036	$ 12,364,312	$ 7,347,858
$ 80,349,723	$ 52,459,051	$ 42,662,791	$ 34,010,160	$ 29,028,025	$ 16,430,066	$ 14,114,730	$ 9,526,704	$ 4,120,035
$ 65,516,218	$ 56,328,109	$ 46,739,148	$ 36,790,164	$ 23,746,510	$ 14,907,961	$ 11,694,875	$ 10,023,589	$ 4,957,270
4,615,854	4,569,616	4,283,449	4,169,322	3,795,205	3,730,110	3,725,175	3,531,150	3,163,650
$13.93	$12.10	$10.09	$8.31	$5.85	$3.78	$2.92	$2.62	$1.57

Report of Operations

Financial Review Total sales, excluding those of leased departments, for the fiscal year ended January 30, 1971, rose 14% to a new high of $683,131,000. Despite the percentage gain this volume was below our budget and reflected the fact that the business downturn was deeper and longer lasting than had been generally anticipated.

Net income for the year was $7,663,000 equal to $1.62 per common share as compared with $8,652,000 or $1.85 per common share last year.

The two major factors affecting profits during 1970 were increased costs and the economic recession. Virtually every business expense was subject to inflationary pressure including salaries, taxes, supplies and outlays for marketing and distribution. At the same time, the slow pace of the national economy made it impossible for the stores to maintain their customary rate of sales growth.

A considerable amount of management time and effort has been devoted to the problem of inventory shrinkage. Over the past two years our operating divisions have implemented major programs to improve security at both store and distribution center levels as well as to tighten control over inventory accounting paperwork. It is noteworthy that these efforts achieved a considerable measure of success and we recorded a reduction in shrinkage this past year. On the other hand, our corporate plans take into consideration the fact that this item, although under better control, continues to represent a major cost of doing business.

Comparative quarterly sales and earnings were:

1970

Quarter	Sales	Earnings	Per Share
First	$137,250,000	$ 706,000	$ .14
Second	159,386,000	1,268,000	.27
Third	166,231,000	1,565,000	.33
Fourth	220,264,000	4,124,000	.88
	$683,131,000	$7,663,000	$1.62

1969

Quarter	Sales	Earnings	Per Share
First	$108,131,000	$ 962,000	$ .20
Second	146,147,000	1,990,000	.43
Third	150,523,000	2,543,000	.54
Fourth	195,068,000	3,157,000	.68
	$599,869,000	$8,652,000	$1.85

We have continued to maintain our traditionally strong working capital position. Reflecting both additional long-term financing arranged with selected banks as well as this year's earnings, working capital increased by $6,944,000 to a total of $87,294,000.

Revolving credit is a service desired by a growing number of our customers. In response to this trend we have enlarged our programs to include various bank credit card plans and now have revolving credit available in 161 Zayre stores. On a chain-wide basis, credit represents a relatively small but growing percentage of total volume.

The Leasing Subsidiaries Our well-established program of financing store fixture purchases by long-term bank loans arranged through Zayre Leasing Corporation continues to function effectively. Zayre Leasing Corporation financings during the fiscal year included the following:

• Fixture financing for 16 new Zayre stores	$5,000,000
• Fixture financing for 30 new specialty stores	$1,600,000
• Financings related to renovation and re-fixturing programs	$1,250,000
Total	$7,850,000

During 1970, $3,735,000 of Zayre

Leasing debt was amortized through regular monthly payments.

Various Zayre Realty subsidiaries now own 17 properties which include Zayre stores as their principal tenant, in addition to four distribution center properties. The company also has an interest with others in 21 jointly owned completed shopping centers and 4 shopping centers still under construction, in all of which Zayre is the principal tenant.

The realty subsidiaries completed long-term financings totaling $9,262,000 involving the Zayre store in Lewiston, Maine, and the Shoppers' City store in Maplewood, Minnesota, as well as certain other properties.

Expansion The 16 new Zayre stores opened during the year added a total of 1,334,000 square feet of additional floor space. At fiscal year end there was a total of 179 discount department stores in operation, occupying a gross area of approximately 13,600,000 square feet.

The improved availability of mortgage financing for real estate development should result in an increased number of new Zayre store openings in both 1971 and 1972. We presently anticipate opening 18 to 22 new units in 1971 and a larger number in the following year.

Our site selection strategy continues to emphasize increased penetration of major markets we already serve, such as Chicago (16 stores), Boston (13 stores) and Miami (12 stores). In addition we plan to capitalize more heavily on the opportunities that exist in the many medium-sized communities adjacent to and between major markets. We have developed several store prototypes in modules ranging from 50,000 to 80,000 square feet in order to adjust store size to the potential of the specific community.

We are also pleased with the amount of new store activity recorded by our various specialty store groups:

Division	Opened 1970	Planned 1971
Bell and Nugents	9	8–10
Hit or Miss	7	6–10
Beaconway Fabrics	12	12–15
Spree!	9	1–3

It should be noted that the management of each division has responsibility for site selection and development within limits defined by corporate management.

Acquisitions During August, 1970, we completed the purchase for cash and notes of Warwick Shoppers World, operators of ten discount department stores and one large promotional apparel specialty store, all located in Rhode Island and Massachusetts.

During the period since acquisition, careful plans have been implemented to assure the retention of the unique apparel merchandising skills of the Warwick organization. At the same time, we have taken advantage of the skills of the Zayre merchandising organization to assume direct operation of departments formerly leased to others, thereby greatly strengthening store merchandise presentation and increasing earning power.

During September, 1970, we completed the purchase of Commonwealth Trading Corporation, operator of the

"Hit or Miss" promotional ladies' apparel stores. This group opened seven units during the year and operated a total of 17 at year end. We believe this operating format offers excellent potential for rapid development.

Hit or Miss stores are currently concentrated in New England and offer a blend of high fashion merchandise purchased at promotional prices from name-brand manufacturers and sold without labels at deep discounts from regular prices. Strong values and fashion excitement combine to create a powerful sales appeal.

Other Developments We established a decentralized distribution center network during 1970. Major facilities were activated in Atlanta, Chicago and Miami. Plans for the activation, by 1972, of a 486,000 square foot facility in Mansfield, Massachusetts, are in the advanced stages. When activated, the Mansfield facility will serve the Northeast, enabling the Framingham and Natick centers to serve a limited number of departments requiring specialized distribution services on a national basis.

Our regional organizations have gained considerable operating experience during the year. Regional executives now focus intensively on the operations of their respective groups of stores to assure compliance with operating procedures, expense budgets and effective merchandising. In addition, the field personnel are able to provide a local thrust to centrally controlled merchandising and sales promotion activities.

Although we have always made some use of television and radio in our sales promotion program, currently that emphasis is being stepped up considerably in New England and certain other markets. Capitalizing on name personalities, TV and radio messages are beamed at consumers on a saturation basis to boost their awareness of Zayre and draw attention to our newspaper offerings.

The shoe division has grown according to plan. By fiscal year end it was responsible for the operation of 64 departments and was scheduled to assume the operation of 62 additional departments during 1971. Over the next three years it will assume the operation of all remaining shoe departments and achieve a sales volume in excess of $50,000,000.

Personnel During 1970, the following promotions and elections to officerships were made by the Board of Directors:

Morton Friedman, *Vice President* — Hit or Miss Division

Joseph Allen Zwetchkenbaum, *Vice President* — Warwick Division

David Kaplan, *Assistant Vice President* — Regional Manager

Warner Strauss, *Assistant Vice President* — Distribution Services

J. Gerald Sutton, *Assistant Vice President* — Corporate Personnel

James Wilson, *Assistant Vice President* — Regional Manager

Herbert Zarkin, *Assistant Vice President* — Advertising and Sales Promotion

Avenues of Growth

The continuing evolution of the Zayre stores has provided many avenues of growth in addition to the opening of new units. Over the years, there has been a steady expansion of the merchandise lines and departments carried within a typical Zayre store. At the same time, the company has chosen to enlarge its merchandising competence to embrace the operation of most departments formerly leased to others.

The Zayre organization provides financial support, real estate assistance and chain-store "know-how" to enable soundly conceived, well managed retail formats to flourish. This has led to the development of the several specialty store operations described hereafter.

Zayre Stores

The 163 Zayre stores are a vigorous reflection of the "retail revolution" that has made discount department stores such a major factor in the retailing of general merchandise.

The typical Zayre store offers an exciting format which emphasizes customer convenience and value. Customers like the one-stop shopping convenience offered by 80,000 square foot stores with wide assortments of first quality, fashion-right apparel and home needs assembled under one roof. Most stores are located on major highways, offer free parking, easy access and evening shopping hours. Value is reflected through lower prices made possible by high turnover and the use of self-service principles.

Zayre Stores — Footwear Division

A significant step in the expansion of Zayre owned merchandise lines was the decision, two years ago, to enter shoe retailing. This meant that Zayre would operate shoe departments in all new stores and assume the operation of all existing leased shoe departments as those leases expired over a five-year period. The program is proceeding in accordance with a carefully drawn plan which provides for system, distribution and organizational support. Quality and fashion at promotional prices are the major merchandising themes of the 64 shoe departments now operated.

Zayre Stores — Gasoline Division

High speed gasoline stations are featured adjacent to 50 Zayre stores, with the division planning a rapid expansion to additional locations. They provide clean, fast and efficient service in the sale of Zayre brand quality gasoline and oil at prices generally lower than national brands. The gasoline division is an example of the new departments that have been added through internal growth. An interesting new development is the self-service gas station which utilizes the latest equipment to provide even greater savings to the consumer.

Zayre — Shoppers' City

Shoppers' City operates five super-discount stores with the principal grouping in the Minneapolis-St. Paul market. These stores include complete company operated discount food supermarkets, are larger in size, and have a broader merchandise mix than the typical discount store. Over the next few years, the Shoppers' City division will open additional units in both existing and new markets.

Discount Department Store Operations

Warwick — Zayre

During 1970 the company acquired the eleven store Warwick Shoppers World chain, which gave Zayre a major retailing position in the state of Rhode Island. The Warwick organization has been structured to retain its excellence in merchandising fashion apparel while at the same time receiving the benefit of the parent company's skills in non-apparel lines, which had been previously leased to others.

Bell-Nugents

Our original business, women's apparel specialty shops under the names "Bell Shops" or "Nugents", has come alive in the past few years with a new and distinctive identity, which appeals especially to the sportswear-minded, fashion-conscious junior. This type of store seeks to fill the niche between the discount store and the department store by offering fashion apparel in a relaxed suburban shopping center atmosphere. This division now operates 51 stores and plans to open 8 to 10 new stores during 1971.

Beaconway Fabrics

One of the retailing phenomenon of the past decade has been the explosive growth of the home sewing field. Zayre has a major position in this field through the operation of fabric and yarn departments in all of its discount stores. Moreover, the experienced management of this division has over the past several years developed a free-standing fabric store format. Now fully tested, the present 18 Beaconway specialty stores will be expanded at the rate of 12 to 15 new units per year.


Fabrics & Yarn


FASHION AT YOUR PRICE


Hit or MiSS

Hit or Miss

Acquired during 1970, this group presently operates 17 promotional women's apparel stores in New England. Hit or Miss stores are unique in their powerful appeal to a broad range of fashion-conscious female shoppers. These stores specialize in current high fashion merchandise, purchased promotionally from famous brand manufacturers and sold without labels at substantial reductions from normal retail price. Present plans call for the opening of 6 to 10 new stores during 1971.

Spree!

During 1970, we recruited and organized a management group to enter the toy and leisure-time specialty store field. By year-end nine units were in operation in New England and Ohio. These stores present a broad range of toys, games, and wheeled goods, infants' furniture and outdoor leisure equipment. The Spree! organization is now laying the base for expansion by refining its operating concepts as well as improving store profitability.

Retail Locations

	DISCOUNT DEPARTMENT STORE OPERATIONS	SPECIALTY STORE OPERATIONS			
	ZAYRE*	BELL-NUGENTS	HIT OR MISS	BEACONWAY	SPREE!
CONNECTICUT	2	7		3	2
FLORIDA	27				
GEORGIA	7				
ILLINOIS	19				
INDIANA	10				
KENTUCKY	2				
MAINE	6	5		3	
MARYLAND	4			1	
MASSACHUSETTS	31	20	14	5	3
MICHIGAN	1				
MINNESOTA	5				
MISSISSIPPI	1				
MISSOURI	4				
NEW HAMPSHIRE	1	8		4	
NEW YORK	2	7			
NORTH CAROLINA	8				
OHIO	15				4
PENNSYLVANIA	6				
RHODE ISLAND	10	2	3	1	
SOUTH CAROLINA	1				
TENNESSEE	7				
VERMONT	1	2		1	
VIRGINIA	8				
WISCONSIN	1				
Total Units as of January 30, 1971	**179**	**51**	**17**	**18**	**9**

*Includes Warwick and Shoppers' City Stores

FINANCIAL HIGHLIGHTS

Consolidated Balance Sheets

	January 30, 1971	January 31, 1970
ASSETS		
Current assets:		
Cash	**$ 17,298,976**	$ 12,300,692
Marketable securities, at cost approximating market	**2,000,000**	9,990,333
Receivables, net of allowance for doubtful accounts	**8,258,847**	7,079,196
Amounts due from vendors	**5,107,638**	4,816,229
Merchandise inventories, at the lower of cost (retail method) or market	**119,445,509**	100,407,455
Due from leasing subsidiaries	**33,768**	2,575,906
Prepaid expenses	**3,371,620**	2,557,240
Total current assets	**155,516,358**	139,727,051
Equity in wholly-owned unconsolidated leasing subsidiaries (note A)	**4,065,289**	3,408,016
Equipment, leasehold costs and improvements, at cost	**12,207,491**	8,086,353
Less accumulated depreciation and amortization (note H)	**3,609,685**	3,105,231
	8,597,806	4,981,122
Equity in and note receivable from affiliated real estate development company	**1,272,000**	1,200,000
Pre-opening expenses, at amortized cost	**1,256,428**	1,493,575
Deferred charges and other assets	**2,154,677**	1,648,795
Goodwill (note A)	**3,728,819**	
	$176,591,377	$152,458,559
LIABILITIES		
Current liabilities:		
Current instalments of general corporate notes	**$ 6,859,282**	$ 1,145,000
Accounts payable	**42,491,409**	42,292,150
Sales taxes, withholdings, and other collections	**2,857,659**	2,564,916
Accrued expenses	**10,178,450**	7,594,605
Federal income taxes	**1,931,561**	460,178
Total current liabilities	**64,318,361**	54,056,849
General corporate notes, exclusive of current instalments (note B)	**18,545,160**	12,617,492
Convertible subordinated debentures (note B)	**20,000,000**	20,000,000
Deferred federal income taxes (note C)	**190,000**	268,000
Commitments (note D)		
SHAREHOLDERS' EQUITY		
Preferred stock, par value $1, authorized 1,000,000 shares, issued and outstanding 57,659 shares Series B cumulative convertible preferred stock (note F)	**57,659**	57,659
Common stock, par value $1, authorized 11,000,000 shares, issued and outstanding 4,650,393 shares (notes A, B, F and G)	**4,650,393**	4,615,854
Additional paid-in capital	**10,222,993**	9,776,834
Retained earnings (notes B and F)	**58,606,811**	51,065,871
	73,537,856	65,516,218
	$176,591,377	$152,458,559

The accompanying notes are an integral part of the financial statements.

Consolidated Balance Sheets

	January 30, 1971	January 31, 1970
ASSETS		
Current assets:		
Cash	**$ 18,041,806**	$ 13,926,692
Marketable securities, at cost approximating market	**5,348,318**	12,145,423
Receivables, net of allowance for doubtful accounts	**8,482,024**	7,145,817
Amounts due from vendors	**5,107,638**	4,816,229
Merchandise inventories, at the lower of cost (retail method) or market	**119,445,509**	100,407,455
Prepaid expenses	**3,371,620**	2,557,240
Total current assets	**159,796,915**	140,998,856
Property, at cost:		
Land	**8,036,320**	4,745,969
Buildings	**29,277,060**	26,105,959
Leasehold costs and improvements	**14,127,549**	8,692,358
Furniture, fixtures and equipment	**60,585,938**	49,745,782
	112,026,867	89,290,068
Less accumulated depreciation and amortization (note H)	**28,210,500**	22,091,242
	83,816,367	67,198,826
Equity in and note receivable from affiliated real estate development company	**1,272,000**	1,200,000
Pre-opening expenses, at amortized cost	**1,256,428**	1,493,575
Deferred charges and other assets	**2,645,308**	1,957,794
Goodwill (note A)	**3,728,819**	
	$252,515,837	$212,849,051
LIABILITIES		
Current liabilities:		
Current instalments of long-term debt	**$ 12,169,170**	$ 5,581,477
Accounts payable	**44,797,818**	43,871,934
Sales taxes, withholdings, and other collections	**2,857,659**	2,564,916
Accrued expenses	**10,684,662**	8,048,918
Federal income taxes	**1,993,523**	581,888
Total current liabilities	**72,502,832**	60,649,133
Long-term debt, exclusive of current instalments (note B):		
General corporate notes	**18,545,160**	12,617,492
Equipment promissory notes	**31,803,287**	27,024,892
Real estate mortgages	**34,487,702**	25,505,316
Convertible subordinated debentures	**20,000,000**	20,000,000
Deferred federal income taxes (note C)	**1,639,000**	1,536,000
Commitments (note D)		
SHAREHOLDERS' EQUITY		
Preferred stock, par value $1, authorized 1,000,000 shares, issued and outstanding 57,659 shares Series B cumulative convertible preferred stock (note F)	**57,659**	57,659
Common stock, par value $1, authorized 11,000,000 shares, issued and outstanding 4,650,393 shares (notes A, B, F and G)	**4,650,393**	4,615,854
Additional paid-in capital	**10,222,993**	9,776,834
Retained earnings (notes B and F)	**58,606,811**	51,065,871
	73,537,856	65,516,218
	$252,515,837	$212,849,051

The accompanying notes are an integral part of the financial statements.

Consolidated Statements of Income and Retained Earnings

	Fiscal Year Ended January 30, 1971	Fiscal Year Ended January 31, 1970
Net sales, excluding sales of leased departments	**$683,131,062**	$599,868,532
Rentals from leased departments, net of estimated allocated store expenses	**1,521,810**	1,351,529
Other income	**1,684,569**	1,321,572
	686,337,441	602,541,633
Cost of sales, including buying and occupancy costs	**535,871,709**	475,334,783
Selling, general and administrative expenses	**117,829,446**	97,455,710
Depreciation and amortization (note H)	**9,570,426**	7,187,026
Interest expense	**8,085,069**	6,111,947
	671,356,650	586,089,466
Income before provision for federal income taxes	**14,980,791**	16,452,167
Provision for federal income taxes (note C)	**7,318,000**	7,800,000
Net income	**7,662,791**	8,652,167
Retained earnings at beginning of year	**51,065,871**	42,413,704
Dividends on Series B preferred stock	**(121,851)**	
Retained earnings at end of year	**$ 58,606,811**	$ 51,065,871
Net income per common share (note I):		
Primary	**$1.62**	$1.85
Fully diluted	**$1.54**	$1.78

Consolidated Statements of Additional Paid-In Capital

	Fiscal Year Ended January 30, 1971	Fiscal Year Ended January 31, 1970
Balance at beginning of year	**$ 9,776,834**	$ 9,287,130
Excess over par value of common stock issued upon exercise of options	**446,159**	442,144
Other		47,560
	$ 10,222,993	$ 9,776,834

The accompanying notes are an integral part of the financial statements.

Consolidated Statements of Funds

	Fiscal Year Ended January 30, 1971	Fiscal Year Ended January 31, 1970
SOURCE		
Net income	**$ 7,662,791**	$ 8,652,167
Charges to income not requiring funds:		
Depreciation and amortization	**9,570,426**	7,187,026
Deferred federal income taxes	**103,000**	(113,000)
Funds provided from operations	**17,336,217**	15,726,193
Long-term debt:		
Convertible debentures, net		19,624,000
Other financings	**24,197,619**	22,406,542
Issued in acquisitions	**7,660,000**	
Property disposals	**1,467,279**	975,111
Exercise of common stock options	**480,698**	488,382
Other		271,311
	$51,141,813	$59,491,539
APPLICATION		
Current instalments of long-term debt	**$12,169,170**	$ 5,581,477
Property additions:		
Real estate	**7,346,297**	8,274,800
Fixtures, equipment, leasehold costs and improvements	**17,823,885**	13,691,895
Pre-opening costs	**1,680,845**	2,016,078
Note receivable, deferred charges and other assets	**1,326,586**	2,036,617
Goodwill (note A)	**3,728,819**	
Dividends on Series B preferred stock	**121,851**	
	44,197,453	31,600,867
Increase in working capital	**6,944,360**	27,890,672
	$51,141,813	$59,491,539

The accompanying notes are an integral part of the financial statements.

Auditors' Report

To the Board of Directors of Zayre Corp.:

We have examined the consolidated balance sheet of Zayre Corp. and All Subsidiaries as of January 30, 1971, the related consolidated statements of income and retained earnings, additional paid-in capital, and funds for the fiscal year then ended, and the consolidated balance sheet of Zayre Corp. and Operating Subsidiaries as of January 30, 1971. Our examination was made in accordance with generally accepted auditing standards, and accordingly included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances. We previously examined and reported upon the financial statements for the fiscal year ended January 31, 1970.

In our opinion, the aforementioned financial statements present fairly the financial position of Zayre Corp. and All Subsidiaries and Zayre Corp. and Operating Subsidiaries at January 30, 1971 and January 31, 1970 and the results of operations and source and application of funds of Zayre Corp. and All Subsidiaries for the fiscal years then ended, in conformity with generally accepted accounting principles applied on a consistent basis.

Boston, Massachusetts
April 13, 1971

Lybrand, Ross Bros. & Montgomery

Notes to Consolidated Financial Statements

A — Basis of Presentation

The consolidated financial statements of Zayre Corp. and All Subsidiaries include the financial statements of all the Company's subsidiaries, all wholly owned. However, the consolidated balance sheet of Zayre Corp. and Operating Subsidiaries excludes the assets and liabilities of the leasing subsidiaries, which are presented in note J.

Effective August 17, 1970, the Company purchased the net assets of Warwick Shoppers World Corporation for cash and notes aggregating $6,000,000. The Company also purchased, effective September 14, 1970, Commonwealth Trading Corporation for cash, notes and contingent payments which aggregated $3,000,000 as of January 30, 1971. Up to an additional $1,750,000 of notes are issuable for this company after January 27, 1973 (and will be recorded at that time), depending upon average earnings for the three year period then ended. For both acquisitions, the excess of the purchase price incurred through January 30, 1971 over the costs assigned to the identifiable assets acquired has been included in "Goodwill" on the balance sheet, which amount will not be amortized. The fiscal 1971 income statement includes the operating results of these two companies since the effective dates of their acquisition.

B — Long-Term Debt

At January 30, 1971, long-term debt, exclusive of current instalments, consisted of the following:

General corporate notes:	
Promissory notes, interest at 5.8% to 7.5% and at ¼% above prime maturing March 31, 1972 to January 31, 1984	$ 12,541,827
Subordinated notes, interest at 5.5% to 8% and at prime, maturing August 1, 1972 to January 15, 1979	6,003,333
	18,545,160
Equipment promissory notes, interest principally at ¼% above prime, maturing February 1, 1972 to January 31, 1979	31,803,287
Real estate mortgages, interest at 5½% to 10¼% maturing May 10, 1973 to January 1, 2001	34,487,702
Convertible subordinated debentures, 5¾%, maturing December 15, 1979 to December 15, 1994	20,000,000
	$104,836,149

The subordinated notes are subordinated to the promissory notes. The 5¾% convertible subordinated debentures are subordinated to all general corporate notes and are convertible into common stock at $40 per share, for which the Company has reserved 500,000 shares of its common stock. Under provisions of the agreements governing long-term debt, $21,000,000 of retained earnings was available for dividends at January 30, 1971. While the parent company is not directly obligated with respect to the equipment promissory notes or real estate mortgages, it has guaranteed the leases which have been assigned as collateral for such debt.

C — Federal Income Taxes

Deferred federal income taxes arise from income tax and financial reporting differences principally with respect to depreciation expense, pre-opening costs, and customer instalment receivables. Individual federal income tax returns were filed by the Company and its subsidiaries for fiscal 1970; the Company plans to file on a consolidated basis for fiscal 1971.

D — Commitments

The companies are committed to pay minimum annual rentals under long-term net leases expiring: between fiscal 1975 and 1979 — $3,028,000; between fiscal 1980 and 1984 — $4,922,000; between fiscal 1985 and 1989 — $3,909,000; between fiscal 1990 and 1994 — $4,185,000; and between fiscal 1995 and 2001 — $5,404,000. Additional minimum annual rentals of approximately $2,600,000 will be payable under long-term leases for fifteen discount department stores and thirteen specialty stores to be opened during fiscal 1972.

E — Retirement Plan

The actuarially determined cost of the Company's noncontributory funded employee Retirement Plan, amounting to $593,000 in fiscal 1971 and $442,000 in fiscal 1970 (including amortization of prior service costs over thirty years), has been charged to income.

F — Preferred Stock

The Company's Series B cumulative convertible preferred stock is entitled to a liquidation preference of $65 per share, or $3,747,835 in the aggregate for the 57,659 shares issued and outstanding, and is redeemable, subsequent to January 30, 1974, at the option of the Company at the same price. Dividends on 46,866 shares at an annual rate of $2.60 per share were paid during the year ended January 30, 1971 and will begin to accrue as to the remaining 10,793 shares on January 31, 1971. No dividends were paid during the year ended January 31, 1970.

Each share is convertible into 1.5 shares of common stock and 86,488 shares of common stock have been reserved for the conversion privilege.

G — Stock Options, Stock Purchase Warrants and Stock Purchase Plan

Under its Stock Option Plans, the Company has granted certain officers and key employees options for the purchase of common stock within five years from the grant date at option prices of 100% of market price on the grant date. Generally, all options are exercisable in four equal cumulative annual instalments commencing one year after the grant date. Information concerning activity during fiscal 1971 follows:

		Number of Common Shares Reserved for	
	Option Prices	*Options Granted*	*Future Options*
Outstanding at 1/31/70	$13.94 to $38.67	156,662	74,610
Options granted	$25.625	87,000	(87,000)
Options exercised	$13.94 to $24.92	(19,439)	
Cancellations		(19,080)	16,710
Outstanding at 1/30/71	$20.34 to $38.67	205,143	4,320

Class A and Class B warrants for the purchase of 78,780 and 47,265 shares, respectively, of the Company's common stock were outstanding at January 30, 1971, and the Company has reserved 126,045 shares of its common stock therefor. The price at which they are exercisable through July 15, 1971 is $4.76 for Class A warrants and $5.95 for Class B warrants; thereafter both classes are exercisable at $7.14 per share until they expire on January 15, 1979.

Under its Executive Incentive Stock Purchase Plan, adopted in June 1969, 38,150 shares of common stock were reserved at January 30, 1971 for sale at a price (not less than par value) determined by the Company, subject to repurchase options and restrictions on sales which lapse equally over five or ten years. In fiscal 1971, 15,100 shares were sold for $1.00 per share under the Plan.

H — Depreciation and Amortization

For financial reporting purposes, the Company provides for depreciation and amortization by the use of the straight line method as follows: buildings — 33 years; leasehold costs — aggregate lease terms; leasehold improvements — shorter of the lease term or estimated useful life; furniture, fixtures and equipment — 5 to 10 years; and pre-opening costs — 12 months.

I — Net Income per Common Share

Primary net income per common share is based upon the average number of shares outstanding in each year, after provision for the full annual dividend requirements on the preferred stock deemed to be outstanding during each year. Fully diluted net income per common share assumes full conversion of all convertible securities (to the extent each is dilutive) and the exercise of all stock options and warrants during the periods in which they were outstanding.

J — Combined Balance Sheets of the Leasing Subsidiaries

	January 30, 1971	*January 31, 1970*
ASSETS		
Property, at cost:		
Land and buildings	$37,313,380	$30,851,928
Furniture, fixtures and leasehold improvements	62,505,996	50,351,787
	99,819,376	81,203,715
Less accumulated depreciation and amortization	24,600,815	18,986,011
	75,218,561	62,217,704
Cash and marketable securities	4,091,148	3,781,090
Accounts receivable	223,177	66,621
Other assets	490,631	308,999
	$80,023,517	$66,374,414
LIABILITIES		
Long-term debt, including current instalments of $5,309,888 in 1971 and $4,436,477 in 1970 (note B)	$71,600,877	$56,966,685
Accounts payable and accrued expenses	2,812,621	2,034,097
Federal income taxes	61,962	121,710
Due to parent and operating subsidiaries	33,768	2,575,906
Deferred federal income taxes	1,449,000	1,268,000
	75,958,228	62,966,398
EQUITY	4,065,289	3,408,016
	$80,023,517	$66,374,414

Fixed annual rentals are receivable, under long-term leases, from the parent company and its operating subsidiaries for the use of real estate, furniture, fixtures and leasehold improvements owned by the leasing subsidiaries.

DIRECTORS

Max Feldberg	Chairman	Milton L. Levy	Senior Vice President
Abram Berkowitz	Partner, Ropes & Gray	Morris Natelson	Partner, Lehman Brothers
Stanley H. Feldberg	President	Walter J. Salmon	Professor of Marketing Harvard Graduate School of Business Administration
Sumner L. Feldberg	Executive Vice President		
Newton A. Lane	Partner, Nathanson & Rudofsky	Burton S. Stern	Senior Vice President

OFFICERS

Max Feldberg	Chairman	Stanley H. Feldberg	President
Sumner L. Feldberg	Executive Vice President		
Milton L. Levy	Senior Vice President, Real Estate	Burton S. Stern	Senior Vice President, General Merchandise Manager

Vice Presidents

Joel Jacobson	Sales/Operations	Paul Kwasnick	Finance/Distribution and Treasurer
Robert Feinberg	Merchandising	Arnold Suval	Merchandising
Anna Goldstein Levitman	Merchandising	George Mover	Regional Manager
Leo Michelson	Merchandising	Morton H. Friedman	Hit or Miss Division
Theodore Schoenfeld	Merchandising	J. A. Zwetchkenbaum	Warwick Division

Secretary

Newton A. Lane

Assistant Vice Presidents

David Banker	Merchandising	John F. McGowan	Regional Manager
Gerald Davis	Merchandising	James Wilson	Regional Manager
Fred Field	Merchandising	Robert Bozeman	Mgt. Information Systems
Samuel J. Greenberg	Merchandising	George Freeman	Staff/Finance
Irving Lief	Merchandising	Randolph L. Kruger	Administrative Services
Malcolm L. Sherman	Merchandising	Norman Lenox	Disbursements
Karam Skaff	Merchandising	Robert Shedd	Finance
O. C. Adams	Regional Manager	Warner Strauss	Distribution Services
Robert Alger	Regional Manager	J. Gerald Sutton	Corporate Personnel
David Kaplan	Regional Manager	Arthur J. Ober, Jr.	Store Planning and Constr.
David Goldman	Regional Manager	Herbert Zarkin	Sales Promotion and Adv.

Transfer Agents — Common Stock

State Street Bank and Trust Company
Boston, Massachusetts

Irving Trust Company
New York, New York

Registrars — Common Stock

The First National Bank of Boston
Boston, Massachusetts

The Chase Manhattan Bank
New York, New York

Trustee — Debentures

First National City Bank
New York, New York

Listing

New York Stock Exchange
(Common Stock and Debentures)

General Counsel

Nathanson & Rudofsky

Special Counsel

Ropes & Gray

Auditors

Lybrand, Ross Bros. & Montgomery

Touche Ross & Co.

Executive Offices

Framingham, Massachusetts

Annual Meeting

The 1971 annual meeting will be held at 11:00 A.M. on Tuesday, June 1, 1971, in the Forum Room, State Street Bank and Trust Company, 225 Franklin Street, Boston, Massachusetts.

ZAYRE CORP. FRAMINGHAM, MASSACHUSETTS

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